STATEMENT OF ALLEN HELMS

Chairman, National Cotton Council

prepared for delivery to

Committee on Agriculture

Review of Federal Farm Policy

Washington, DC, September 20, 2006

Chairman Goodlatte, Ranking Member Peterson and members of the Committee, thank you for holding this hearing and for providing me the opportunity to present testimony on current and future farm policy.

My name is Allen Helms. I serve as Chairman of the National Cotton Council. I operate a diversified farming operation on which I produce cotton, corn, soybeans, rice and wheat in Clarkedale, Arkansas. I also am president of a grower-owned cotton gin.

In recent years, cotton acreage in the United States has fluctuated between 13.5 and 15.5 million acres as farmers adjust acreage based on agronomic practices and relative returns between cotton and competing crops. In 2004 and 2005, growers in many areas of the Cotton Belt were fortunate to have above-average yields, and as a result, the U.S. produced record crops in excess of 23 million bales. Unfortunately, weather in 2006 has not cooperated, and growers in several parts of the Cotton Belt are facing much lower yields.

The demand base for U.S. fiber has shifted from the domestic market to the export market as increased imports of cotton textile and apparel products have reduced domestic mill use. In 1997, the U.S. textile industry consumed more than 11 million bales of cotton, or 60% of total disappearance. For the current marketing year, U.S. mill use is estimated at 5.5 million bales, which is 25% of total use, with export markets accounting for the remainder. Exports of raw fiber are estimated to exceed 16 million bales. With the removal of textile import quotas and China's continued emergence as the largest spinner of raw cotton, the reliance on exports is expected to continue for the foreseeable future. The U.S. position in the global market has remained relatively stable over the past 30 years, averaging 15% and 19% of world area and production, respectively.

Mr. Chairman, the 2002 farm bill enjoys considerable support among cotton producers. That support appears to be widespread. Over the past six years, no farm organization has called for major modification of current law nor has Congress approved any major changes.

The current farm bill provides a stable and effective national farm policy. The combination of direct and counter-cyclical payments provide an effective means of income support, especially when prices are low, without distorting planting decisions. The primary shortcoming of the 1996 law was the lack of a counter-cyclical payment that triggered when prices are low. As a consequence, farmers were forced to request emergency assistance from Congress year after year. This has been alleviated by the counter-cyclical program.

The direct payment mechanism helps provide financial stability required by our lenders and suppliers, also without distorting production decisions.

The cotton industry believes it is important to maintain a balance between these two mechanisms. Higher direct payments can have unintended impacts. They can provide an incentive for landlords to take land away from producers; they can create unexpected payment limitation issues; and they can cost the taxpayers more than is necessary to ensure agricultural stability.

It is also important to consider that sudden, significant program changes can have different regional impacts due to historical differences in cropping patterns and yields.

We strongly support continuation of the marketing loan. It is clearly our top priority under all circumstances. The marketing loan **responds** to low prices, it does not **cause** low prices. It ensures that U.S. cotton farmers are not residual suppliers in the world market.

It is also especially important that all production remain eligible for the marketing loan so farmers can make informed, orderly marketing decisions. And, it is important to continue to administer the marketing loan in a manner that minimizes forfeitures and allows U.S. commodities to be competitive in domestic and international markets. For example, an ineffective price discovery mechanism or arbitrary limits on loan eligibility signal our competitors that the United States will be competitive on a portion but not all of our production. This is an open invitation for foreign competitors to increase production, even in the absence of, or in spite of, market price signals—and would return U.S. farmers to being residual suppliers.

In addition, we are disturbed by continual claims that 80 percent of all program benefits go to fewer than 20 percent of the producers and that only the so-called program crops receive direct benefits from farm law. These comments are misleading and serve to divide rather than inspire cooperation. First, it's important to remember that program benefits do not just come as direct payments. Virtually every commodity receives some type of support, whether through direct income payments, price support programs or barriers to import. For example, for some commodities, the U.S. imposes higher tariffs on imports during times when domestic supplies are the most plentiful. In addition, some commodities receive support through government purchases of the product or by mandating use of the product. Favorable tax laws also are used to provide support for certain products but the benefits are not directly attributed to individual farmers. It also should be recognized that our current farm programs provide very real benefits to the livestock sector. Livestock interests benefit because our current farm programs facilitate preservation of a reliable, safe and affordable supply of feedstuffs such as corn, soybean meal and cottonseed.

It is also misleading to compare payments going to the number of farmers. With the natural consolidation of agriculture, it is inevitable that the majority of program benefits will go to the farmers who account for the majority of production. However, it is also true that per-pound or per-bushel support is consistent across producers regardless of size. Plus, payments to producers represent just a fraction of the costs and risks incurred to enable farmers to produce. This is especially true in the current environment of increasing fuel and energy costs. Today's program benefits are an important safety net and not a windfall.

The cotton loan structure and world price calculation have served the industry well. There have been minimal forfeitures and robust exports, but some modification may be necessary to respond to the new emphasis on export markets and the termination of Step 2. Simplification of the loan rate schedule and modification of the calculation of a world price should be reviewed as part of any new farm law. We also support elimination of the longstanding prohibition on USDA projecting cotton prices for the purposes of administering the program.

Pima producers support continuation of a loan program with a competitiveness provision to ensure U.S. extra-long staple cotton, also known as Pima cotton, remains competitive in international markets. The balance between the upland and pima programs is important to ensure that acreage is planted in response to market signals and not program benefits.

A sound farm policy is of little value to the cotton industry, as well as merchants, cooperatives and processors, if arbitrary, unworkable limitations are placed on benefits. Current law requires USDA to determine if individuals meet certain eligibility requirements and there are statutory limitations on each category of benefits. Unfortunately, these limits have been dictated by public perception, not the requirements of efficient, internationally competitive farming operations. Because there is continuous pressure on USDA to streamline and downsize, it is reasonable to question the cost and efficiency of USDA administering and farmers complying with complicated limitations provisions. Frankly, we believe limitations should be eliminated but at the very least any limitations in future law should not be more restrictive or disruptive than those in current law.

We believe conservation programs will continue to be an important component of effective farm policy. These programs should be operated on a voluntary, cost-share basis and are a valuable complement to commodity programs. However, they are not an effective substitute for the safety-net provided by commodity programs. The Conservation Reserve Program, Conservation Security Program and Environmental Quality Incentive Programs are proven, valuable ways to promote sound, sustainable practices through voluntary, cost-share, incentive based programs.

Access to an affordable crop insurance program also is an important tool for most farmers. However, given the continued inequities of coverage and service in different regions and for different crops it is probably time for another thorough evaluation of the cost and benefits associated with the multi-peril crop insurance program. This is especially important as the concept of a whole-farm, revenue insurance program is gaining attention as a way to devise a new program that is potentially WTO-consistent. While we welcome the discussion, I cannot tell you that a majority of cotton farmers will embrace crop insurance as a major component of future farm policy without a great deal more information. In fact, there are those who would support establishment of a permanent disaster assistance program in lieu of funding crop insurance programs.

Continuation of an adequately funded export promotion program, including the Market Access Program (MAP) and Foreign Market Development (FMD) Program, are important in an export dependant agricultural economy. It also is valuable to maintain a WTO-compliant export credit guarantee program. Individual farmers and exporters do not have the necessary resources to operate effective promotion programs which maintain and expand markets – but the public-private partnerships facilitated by the MAP and FMD programs, using a cost-share approach, have proven highly effective and have the added advantage of being WTO-compliant.

The U.S. cotton industry understands the value and benefits of effective promotion. In addition to being original and continuous participants in FMD and MAP, growers finance a very successful promotion program through a self-assessment (check-off) program. In large part, and as a result of effective promotion, the average U.S. consumer purchases 38 pounds of cotton textile and apparel products each year. In the rest of the world, consumption is less than six pounds per person per year. Promotion works! It is important that the authority for farmers to operate self-help, self-financed promotion programs be continued.

Mr. Chairman, we understand you and your colleagues will face significant challenges in designing and maintaining effective farm policy in the future. In addition to the need to balance the diverse interests of different regions and commodities, we know you have to compete for financial resources in times of a significant budget deficit. We also realize you will have to consider compliance with international agreements as you craft the next farm bill.

The suspension of the Doha negotiations, coupled with (uncertainties) stemming from the cotton dispute panel decision, appear to have created doubt as to the best way to steer domestic farm policy. However, I think two things are very clear:

- We are far better off constructing a new farm bill under current WTO spending ceilings than we would be under the kind of reductions contemplated in the U.S. offer. We would rather have a $19.1 billion amber box ceiling and current rules, than a $7.6 billion ceiling and worse rules.
- We should ensure the next farm bill continues to allow the United States to negotiate from a position of strength.

The Doha negotiations were moving forward only when the U.S. made more concessions. Our trading partners have clearly "pocketed" the generous U.S. offer on reductions in agricultural support and demanded further U.S. reductions while making it clear they would not agree to significant increases in market access. In fact, several G-20 countries have worked to undermine trade liberalization as the primary goal of the Round.

By refusing to agree to equitable levels of market access, the EU and the developing world walked away from a U.S. offer of a 60% reduction in the ceiling applicable to the most trade distorting subsidies.

That offer directly targeted the support category containing the marketing loan program, the dairy program and the sugar program. The National Cotton Council has estimated that this level of reduction, placed within the current farm bill structure, could lead to a 10-15% reduction in marketing loan rates. As growers face rising energy costs, make no mistake – a 15% reduction in loan rates is real and would immediately affect the financial structure of rural America.

The Doha Negotiations were leading toward an agreement with rigid, inflexible, poorly defined limits and no real gains in market access. It is worse for U.S. cotton farmers as the negotiators have unwisely carved out cotton for inequitable treatment while threatening to exempt China, the largest cotton market in the world, from meaningful market access commitments.

A Doha Agreement that cuts U.S. amber box support by 60%, targets U.S. cotton for inequitable cuts, provides little or no real market access gains for agriculture in general, and exempts the biggest cotton user in the world from liberalizing its cotton quota system will not benefit U.S. cotton or U.S. agriculture.

Each concession offered by the United States simply generated a call for an additional concession. The next farm bill, therefore, should enable the United States to negotiate from a position of strength. We should not unilaterally disarm.

These inequitable demands by our international partners will not work for U.S. agriculture. If other countries cannot match the U.S. level of ambition for market access, while continuing their calls for even deeper cuts in U.S. domestic supports, we should either withdraw or reduce our offer on domestic support. We sincerely appreciate the continued, clear commitment of this Committee for an equitable agreement. I am certain that your vocal support for a strong U.S. position has enabled our negotiators to be more effective during the meetings.

We remain concerned that cotton continues to be singled out for inequitable treatment. Cotton has already given more than any other commodity in these negotiations. The Step 2 program has been eliminated, the subsidy component has been removed from the Export Credit Guarantee program and in Hong Kong, least-developed countries were assured of receiving duty-free, quota-free access to the U.S. raw cotton market as soon as an agreement is reached. An agreement that singles out U.S. cotton for even more inequitable treatment cannot be supported by the US cotton industry.

Our longstanding customers, the U.S. textile industry, have faced tremendous competition from low-cost imported apparel. Despite significant gains in productivity and efficiency, U.S. textile manufacturers have found it difficult to compete with imported apparel products from primarily Asian sources. Cotton farmers are deeply concerned with the loss of our manufacturing customer base. We will continue to work with U.S. textile manufacturers to ensure that there are policies in place that promote and reward fair competition. We also are committed to continue supplying the top quality fiber necessary for U.S. manufacturers to produce internationally competitive textile and apparel products. The loss of the Step 2 program had an adverse impact on our domestic manufacturers given their fragile financial conditions. The remaining manufacturers have indicated strong interest in making revisions to our Step 3 import policy and in developing a possible WTO compliant alternative to Step 2.

The rapid decline in raw cotton consumption by domestic mills has created challenges for all cotton farmers who must identify new export markets to replace domestic consumption lost to imported products. The market has placed new and added pressure on our infrastructure including surface transportation and port facilities. We are working with the industry and with USDA and Congress as appropriate to meet those challenges.

Although cotton fiber is our primary product, cottonseed and its products account for 12 percent of the value of the crop at the farm gate. Cottonseed processing facilities provide important markets for our seed, add economic value and create employment. The increasing emphasis on renewable fuels can have varying impacts on cottonseed markets. Growth in biodiesel increases demand for vegetable oils, thus increasing the value of cottonseed. Also, the production and ginning of cotton produces cellulosic product that is suitable for the production of renewable fuels. However, our members are also closely watching the expansion in ethanol production. Interestingly, as ethanol production increases, one of the by-products – dried distillers' grain – has depressed the value of cottonseed and meal in feed markets. This is clearly an unintended consequence of policies and programs designed to stimulate production of renewable fuels, and also an example of unforeseen impacts due to dramatic policy changes.

Mr. Chairman, we understand you and your colleagues will face significant challenges in designing and maintaining effective farm policy in the future. In addition to the need to balance the diverse interests of different regions and commodities, we know you have to compete for financial resources in times of a significant budget deficit. We also realize you will have to consider compliance with international agreements as you craft future farm policy, but we appreciate that the next farm bill will be written in Congress by the agriculture committees and not dictated by the WTO.

In closing, I would reiterate the cotton industry's overall support for the current farm bill. Frankly, most cotton farmers and a majority of the industry would be satisfied with an extension of current law. We also know, however, that an extension will face hurdles, both domestically and internationally. I am pleased to assure you and your colleagues that the cotton industry is prepared to continue to work with all interests to develop and support continuation of a balanced and effective policy for all of U.S. agriculture.

Thank you for the opportunity to testify today. I will be pleased to respond to your questions at the appropriate time.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: ALLEN B. HELMS JR.

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Organization you represent (if any): NATIONAL COTTON COUNCIL

1. **Please list any federal grants or contracts (including subgrants and subcontracts) <u>you</u> have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do <u>NOT</u> require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source: ______ **Amount:** ______

Source: ______ **Amount:** ______

2. **If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) <u>the organization</u> has received since October 1, 2004, as well as the source and the amount of each grant or contract:**

Source: ______ **Amount:** ______

Source: ______ **Amount:** ______

Please check here if this form is NOT applicable to you: ✓

Signature: Allen B Helms, Jr

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Committee on Agriculture
U.S. House of Representatives
Information Required From Non-governmental Witnesses

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: ALLEN B. HELMS JR.

2. BusinessAddress: P.O. BOX 179
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3. Business Phone Number: (870) 739-3693

4. Organization you represent: NATIONAL COTTON COUNCIL

5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:

CO-OWNER, HELMS FARMS - PRODUCING COTTON, CORN, SOYBEANS, RICE AND WHEAT; PRESIDENT, CRITTENDEN GIN CO.; DIRECTOR, PLANTERS COTTON OIL MILL

6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:

CURRENT NCC CHAIRMAN; NCC SEC./TREAS., 2002-2004; AMERICAN COTTON PRODUCERS CHAIRMAN, 1998-1999; VANDERBILT UNIVERSITY GRADUATE

7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:

CHAIRMAN, NATIONAL COTTON COUNCIL

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.